



PHILIP MORRIS COMPANIES INC.

LEGAL DEPARTMENT
FIVE YEAR PLAN

1992-1996

CONFIDENTIAL

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Objective # 1
Maintain a Vigorous Defense of
Tobacco Product Liability Actions

BACKGROUND

For many years, Philip Morris Incorporated ("PM USA") and other members of the tobacco industry have been defendants in product liability actions in which plaintiffs seek damages allegedly sustained as a result of exposure to tobacco smoke.¹ Defense verdicts in a number of highly publicized cases have led to a decrease in the number of active cases over the last few years, and there are currently 50 cases pending against the industry, including 22 against PM USA. A favorable decision by the Supreme Court in *Cipollone* is likely to preserve this trend. An adverse decision, while not materially improving a plaintiff's chance of recovering damages, might nonetheless lead to the filing of new cases as well as a greater number of trials. In fact, cases pending in New Jersey and Texas may go to trial in 1992 irrespective of the outcome of *Cipollone*. Accordingly, tobacco product liability litigation in the United States will continue to be one of the Legal Department's major responsibilities over the Plan Period. Further, there are more and more smoking and health issues, including

¹ Product liability actions have also been brought against members of the liquor and brewing industries. Just recently, a lawsuit was filed in Dade County (Miami), Florida, against five tobacco companies, purportedly on behalf of a class of current and former flight attendants who were allegedly injured as a result of exposure to environmental tobacco smoke (ETS). This is only the second ETS case filed against the industry.

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those related to litigation, legislation, scientific research, and public relations, in Europe and other foreign jurisdictions which will require the Legal Department's attention over the Plan Period.

1991 HIGHLIGHTS

- Participated in briefing and argument of *Cipollone* before the Supreme Court.
- Obtained favorable decisions in a number of cases in the United States and participated in certain notable cases overseas (*e.g.*, the *Aho* case in Finland and the *AFCO* case in Australia).
- Enhanced the coordination among the Legal Department, the Corporate Affairs Department, the Research and Development Department, and other members of the industry in managing smoking and health issues here and internationally and implemented procedures to ensure timely legal review of activities (*e.g.*, public statements) which could affect the course of product liability litigation.
- Enhanced coordination with Miller Brewing Company's legal department in handling the defense of alcohol product liability actions.
- Actively participated in state and federal tort and litigation reform efforts dealing with product liability laws, punitive damages, comparative fault, protective orders and federal rules.

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PROJECTS

- (1) Develop a post-*Cipollone* contingency plan which we will execute following the Supreme Court's decision.
- (2) Continue a vigorous defense of product liability actions, including those related to environmental tobacco smoke, in the United States and abroad.
- (3) Maintain involvement in state tort and litigation reform efforts.
- (4) Upgrade the automated litigation support systems currently used by outside counsel who are responsible for tobacco product liability litigation.
- (5) Review outside counsel utilization to identify opportunities to increase efficiencies without sacrificing the quality of representation.
- (6) Continue coordination with Corporate Affairs, Research and Development, and other industry members in managing smoking and health issues here and internationally.

Objective # 2
Ensure the Adequacy of Compliance
Programs on a Company-wide Basis

BACKGROUND

In the United States and in many foreign jurisdictions, there is a steady trend toward greater regulation of business activities. This trend is seen not only in the increasing complexity of civil regulatory schemes but also in the increasing application of criminal sanctions to legitimate businesses. In the United States, for example, there are more than 60,000 separate environmental regulations at the federal and state levels and approximately 300,000 separate federal regulations which are subject to criminal enforcement. Ensuring that the Company can aggressively pursue its business interests while remaining within the bounds of the law, both here and abroad, will be a major priority for the Legal Department as it continues to develop compliance programs over the 1992-1996 Plan Period.

1991 HIGHLIGHTS

- Expanded the activities of the Compliance Programs Task Force to include a comprehensive review of the Company's compliance programs in light of the U.S. Sentencing Commission's Organizational Sanction Guidelines and other relevant standards.
- Prepared a detailed memorandum summarizing the Company's major compliance requirements under US law.

- Increased compliance efforts overseas, most notably through an Environmental Law Task Force which is reviewing the Company's environmental practices in Europe.

PROJECTS

- (1) Brief senior management, at both the corporate² and operating company levels, on the Company's compliance programs.
- (2) Use Specialty Groups (formed Fourth Quarter 1991) composed of representatives from the operating companies to develop comprehensive, coordinated Company-wide compliance programs in six key areas:
 - ◆ Antitrust
 - ◆ Environmental
 - ◆ Food and Drug
 - ◆ Government Affairs
 - ◆ Government Contracts
 - ◆ Workplace Safety
- (3) Continue efforts to enhance compliance programs as appropriate in such additional areas as copyright, Foreign Corrupt Practices, labor/employment, and securities.
- (4) Develop policies and procedures related to compliance auditing.

² The first compliance briefing is currently scheduled for February 21, 1992.

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- (5) Explore new ways to conduct compliance training seminars (*e.g.*, through custom videotapes and interactive video technology) and to disseminate compliance materials (*e.g.*, through a Profs bulletin board).
- (6) Develop a policy on when, if ever, the Company will apply US standards to its foreign operations.

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Objective # 3
**Determine and Institute the Optimal Organizational
Structure for the Legal Department**

BACKGROUND

The Legal Department consists of 133 lawyers in 25 locations around the world. Reflective of the Company's overall structure, the Legal Department is decentralized, with each operating company having a fairly autonomous legal staff reporting to a general counsel. Outside of the United States, the Department's decentralized structure is particularly evident. In several countries, for example, the Company's lawyers report to local management and have only indirect reporting lines to a member of the Legal Department. Although the Department's current structure is providing the Company with high quality legal services, the Legal Department could provide even better services at a lower cost were it to be reorganized into a more unified structure. In particular, we believe that lawyers should report to lawyers in a structure designed to promote Company-wide consistency in decision-making and that greater centralization of administrative matters, such as budgeting and staffing, will promote efficiencies. Further, we plan to develop a more unified approach to such matters as hiring from within the Department, professional development, and compensation.

1991 HIGHLIGHTS

- Prepared a detailed analysis of the Department's overseas structure for review during the Department's 1992 Original Budget presentation.

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- Established direct reporting relationships from the Philip Morris EEC and Philip Morris EEMA regions to the Legal Department rather than to regional management.
- Created the position of Philip Morris EEC/EEMA Chief Counsel to provide unified management of Philip Morris International's EEC and EEMA legal affairs and established a direct reporting relationship from the Philip Morris Asia/Pacific Chief Counsel to the Philip Morris International Legal Department.
- Circulated a draft of Legal Department personnel policies among the operating company general counsels and the Human Resources Department.

PROJECTS

- (1) Develop a specific plan to restructure the Legal Department in a way which will ensure high quality legal services in the most efficient manner possible. The plan will focus in particular on reporting relationships and increased centralization of budgeting and other administrative functions.
- (2) Implement a restructuring plan on a phased basis³ along the following lines (dates in parentheses indicate projected completion periods):

³ A phased approach to increased unification will enable periodic reassessment of the Department's structure as the plan is implemented.

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Phase 1 (1/1992)

All Philip Morris International Regional Counsel to Report Directly to Philip Morris International General Counsel.

Phase 2 (6/1992)

Philip Morris GmbH and Philip Morris Holland Country Counsel to Report Directly to Philip Morris EEC Regional Counsel.

Phase 3 (9/1992)

Overseas KGF Lawyers to Report Directly (or through regions) to Kraft General Foods International Chief Counsel.

Phase 4 (9/1992)

All Philip Morris International Lawyers to Report Directly (or through regions) to Philip Morris International General Counsel

Phase 5 (1993)

All First-Tier Operating Companies to Report Directly to Philip Morris Companies Inc. General Counsel

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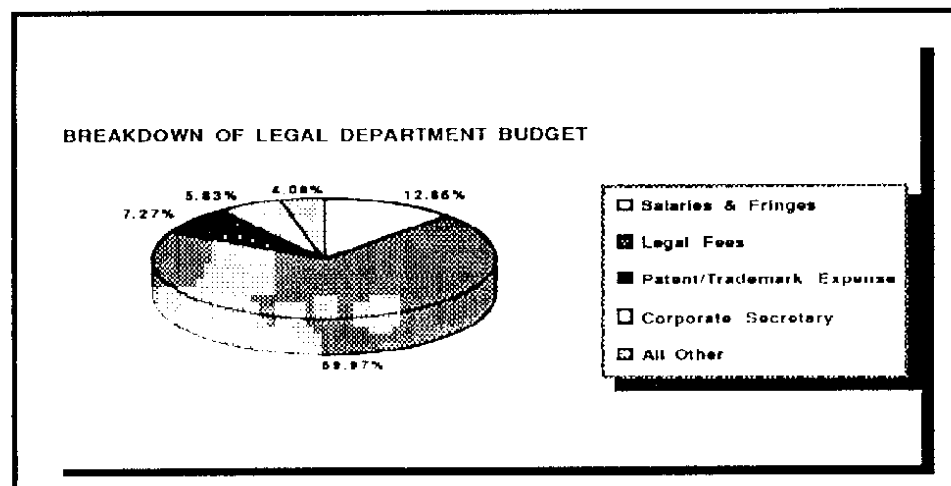
Modifications in the current reporting relationships will lead to better legal services through consistency in legal judgment, independence of legal judgment, and increased sharing of legal resources. Implementation of the plan should also produce certain, as yet unquantified, cost savings. For example, we may be able to reduce outside counsel expenses by eliminating duplication of effort and by internalizing certain work currently handled by outside counsel.

- (3) Consider the establishment of formal practice groups in certain substantive areas (e.g., environmental, litigation, and trademark) to provide legal services on a Company-wide basis.
- (4) Consider opportunities for applying Total Quality Management principles to the Legal Department.
- (5) Distribute formal policy statements regarding such topics as recruitment, participation in professional organizations, and *pro bono* activities.
- (6) Implement procedures which will facilitate hiring of lawyers from within the Company as appropriate.
- (7) Explore opportunities for increased hiring of minorities and increased involvement in programs related to minorities in the profession.
- (8) Examine compensation issues across operating companies.

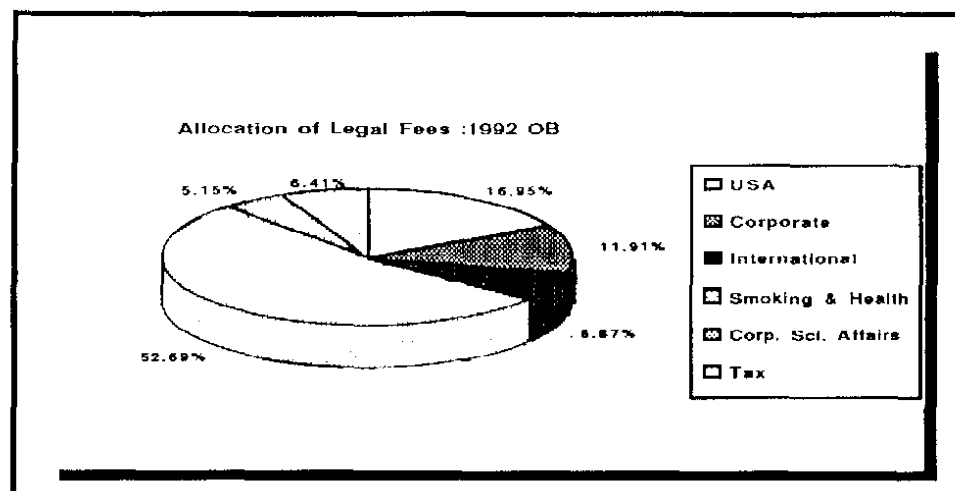
Objective # 4
Continue Efforts to Reduce the
Legal Department's Operating Cost

BACKGROUND

Like other staff departments, the Legal Department is committed to operating in the most cost-effective manner possible. Our major target for cost reduction lies in the area of legal fees, which account for slightly under 70% of the Legal Department's budget:



Currently, legal fees allocated for smoking and health matters account for the largest segment of our outside counsel budget:



Over the 1992-1996 Plan Period, the Department will continue its efforts to manage outside counsel to ensure high quality as well as cost effective services.

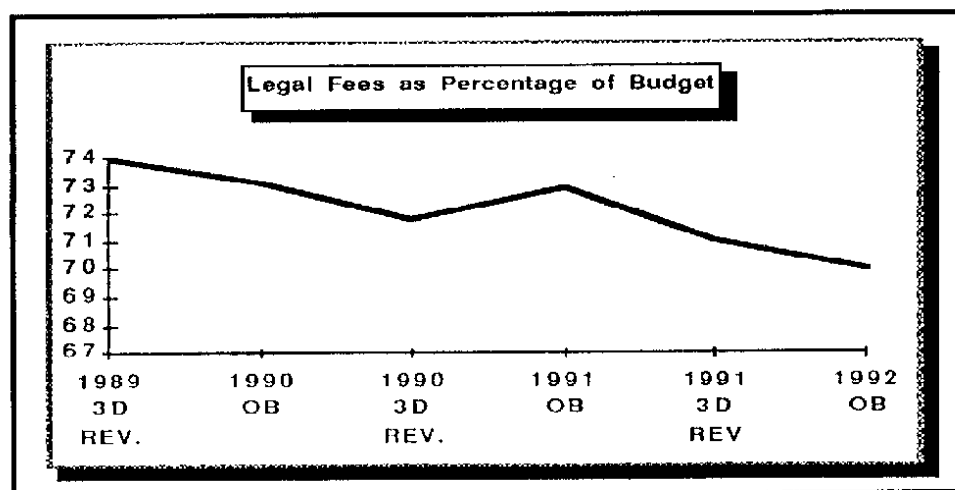
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1991 HIGHLIGHTS

- Reduced the Department's 1992 Original Budget to \$59,170,000, which is \$4.2 million less than the Department's 1991 Original Budget.
- Commissioned a study by an independent consulting firm, Endispute Incorporated, to identify major areas of opportunity to reduce outside counsel expenses.
- By holding the hourly rates charged by outside counsel to 1990 levels and other measures, we have reduced legal fees as a percentage of budget:



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PROJECTS

- (1) Provide an in-depth seminar on outside counsel management to all Philip Morris attorneys in the United States and enhance the Department's policies and procedures governing the use of outside counsel.
- (2) Explore opportunities for savings through the consolidation of legal work in a limited number of preferred firms on advantageous terms.
- (3) Expand the use of alternatives to hourly billing, including fixed rates, blended rates, and volume discounts.
- (4) Consider bringing work in-house in those instances where there is a long-term need for certain types of legal work. *See also* Objective # 3.
- (5) Develop more formalized mechanisms to share work product and expertise throughout the Legal Department in a way which will prevent duplication of effort. *See also* Objective # 3.
- (6) Apply technology to reduce operating costs. *See also* Objective # 6.
- (7) Continue efforts to utilize alternative dispute resolution (ADR) instead of litigation in all appropriate circumstances as a way to reduce costs.

Objective # 5
Continue to Develop An Aggressive
Approach to Providing Legal Services

BACKGROUND

The Legal Department is committed to using its resources aggressively to provide the maximum protection for the Company's legal rights and to minimize the likelihood of legal disputes. Over the Plan Period, the Department will increase its use of such resources.

1991 HIGHLIGHTS

- Increased the usage of Company-wide Legal Department Task Forces to promote synergies in major practice areas, including the following:
 - ◆ Compliance Programs
 - ◆ Document Retention
 - ◆ International Practice
 - ◆ Labor/Employment
 - ◆ Legislation/Regulation
 - ◆ Outside Counsel Management
 - ◆ Synergy/Separateness
 - ◆ Trademark
- Held the Legal Department's second worldwide conference, which addressed a number of topics of Company-wide interest, including restrictions on advertising and marketing; health and safety regulations; preventive law; management of outside counsel; and Total Quality Management ("TQM").

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- Conducted an initial analysis of "benchmarking" and other techniques to measure the Department's performance and identify opportunities for improvement.
- Participated in a TQM training session for corporate staff departments.

PROJECTS

- (1) Identify and respond to trends in the law (*e.g.*, the growing importance of environmental law) at the earliest possible time.
- (2) Expand the use of measures such as the promulgation of marketing codes, the standardization of major agreements, and greater coordination among the operating companies' legal departments. See *also* Objective #3.
- (3) Respond to changing conditions in current and prospective markets, including the former Communist countries, Asia, and Europe.
- (4) Develop an action plan regarding corporate governance issues.
- (5) Working with the Philip Morris Washington office, develop a comprehensive legislative strategy regarding tobacco issues.

- (6) Enhance the coordination between the Legal Department and the Corporate Audit Department by developing a legal guide for corporate auditors and by providing suggestions for audit plans.
- (7) Develop a formal approach to identifying and responding to client needs and expectations at the earliest possible time.
- (8) Participate more actively in legal advocacy groups (e.g., the Washington Legal Foundation).

Objective # 6
Implement Technology Designed to
Increase Departmental Efficiency

BACKGROUND

The Legal Department has dramatically expanded its use of technology over the last few years as part of its efforts to increase the Department's efficiency. Over the 1992-1996 Plan Period, we will continue using technology to automate such functions as Departmental administration (e.g., through the use of electronic fee tracking) and sharing information among the Company's lawyers (e.g., through the use of full-text databases).

1991 HIGHLIGHTS

- Completed the installation of Macintosh local area networks at 120 Park and in Rye Brook.
- Coordinated with Miller Brewing Company's legal department in its installation of a Macintosh network.
- Expanded the Department's capability to track and report on outside counsel utilization.
- Made frequent use of the Company's video-conferencing facilities, thereby promoting coordination among operating company legal departments at low cost.

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- Created a Company-wide trademark database.
- Formed a Company-wide technology steering committee for the Legal Department.

PROJECTS

- (1) **Communications.** Link the Philip Morris Macintosh network to the Miller Brewing Macintosh network as well as the Kraft General Foods Novell network; complete the MCI mail link, which will enable communications with outside counsel; and improve document transfer capabilities.
- (2) **Information Retrieval.** Develop databases in a number of critical areas:
 - ◆ Contracts
 - ◆ Corporate Secretary
 - ◆ Fee Tracking
 - ◆ Legal Research
 - ◆ Matter Tracking
 - ◆ Outside Counsel Management
- (3) **Imaging.** Implement technology which will enable the Department to store the images of trademarks, executed documents, and other materials.